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A hosted service provider for the Internet is operated so as to provide dynamic management of hosted services across disparate customer accounts and/or geographically distinct sites. For each of a plurality of customer accounts, a plurality of individual servers are allocated to a common administrative group defined for that customer account. Each administrative group is configured to access software and data unique to that customer account to provide hosted services for that customer account. The system automatically monitors the performance and health of the servers in each administrative group. At least one server from a first administrative group is automatically and dynamically reallocated to a second administrative group in response to the automatic monitoring. The automatic and dynamic reallocation of servers is accomplished by setting initialization pointers for the reallocated servers to access software and data unique to the customer account for the second administrative group, and then reinitializing the reallocated servers such that the reallocated servers join the second administrative group when restarted. Preferably, the performance and health of the servers in each administrative group are monitored over a separate out-of-band communication channel dedicated to interconnecting the servers as an administrative group. Each administrative group includes a local decision software program that communicates with a master decision software program that determines when and how to dynamically reallocate servers to different administrative work groups in response to usage demands, available resources and service level agreements for different customer accounts.